

The world is your think tank

Transforming global idea flow into cash flow for a competitive advantage

Competing against Asian organizations with significant labour advantages, North American organizations are under siege. They need to continually become more competitive and innovative to win in the global marketplace. According to a recent study, North American companies need to access and retain top talent to survive, and they need to successfully transform ideas into new products, services and business improvements.¹ Part of the solution is to adopt an enterprise-wide process for tapping the creativity of employees and the global talent pool. But organizations must also take the crucial next step of managing the idea flow so that the best ones are identified and brought to fruition.

In this regard, HR and Finance still don't work well enough together. HR can stimulate workforce creativity and access external talent. Finance can translate ideas into projects and prioritize the strongest business cases, but it doesn't have the tools to measure the value of external talent. By tightly integrating HR and Finance into a new role that sparks and manages idea flow, global talent from anywhere can be transformed into cash flow and balance sheet value.

This article outlines the widely understood innovation imperative for today's organizations, and proposes a new HR-Finance Innovation Management Team (IMT), enabled by a "5C Innovation Management" decision-making model, to successfully translate idea flow into cash flow.

The innovation imperative

Companies that operate with a significant labour advantage in countries such as India and China continue to increase their dominance in outsourced manufacturing and services. Recent studies inform us that they will retain their low-cost labour advantage over North America for another 20 years.² While low cost Asian manufacturers are currently focused on imitation³, they will rapidly move up the innovation ladder. In the past, India and China have imitated because invention is risky and expensive - witnessed by less than 20% of patents in India in 2004-5 coming from Indians⁵. Asians have imitated in the past but now are becoming "very innovative, especially with business models."⁴ As a result, North American companies have an urgent innovation imperative.

Given the stark realities of the competition in both manufactured products and outsourced services in the global marketplace, North American organizations need to transform the way they organize themselves and to establish a systemic culture of innovation to retain their competitiveness.

Encouragingly, large and small players alike are showing the promise of engaging their employee's talents and reaching beyond their organizational boundaries. For example, IBM has held "InnovationJams"⁵ by assembling 150,000 people from 104 countries to generate 46,000 ideas.

The world is your think tank

Transforming global idea flow into cash flow for a competitive advantage

Large players such as Google, with its “Android Developer Challenge,”⁶ and Dell (described later) have pioneered new leading practices such as peer-based idea ranking that can transfer across industries. Global pharmaceutical giant Eli Lilly’s “Innocentive”⁷ has been a leader in engaging external scientific talent to solve complex scientific problems with pioneering intellectual property practices. This initiative has been so successful that the service has been adopted as the innovation management system for Boeing, Dow Chemical, DuPont, Novartis, and Procter & Gamble. Smaller business model innovators such as Threadless (described later) have likewise cracked the code on engaging a global pool of talent.

Leaders know innovation begins with problem identification and problem-solving – but internal talent alone isn’t enough today.

External talent can be a significant human capital resource for the organizations. CFOs are directing their organizations to generate higher value for the organization⁸ – helping the organization manage innovation is a golden opportunity. While internal employees are not

on a traditional balance sheet, the financial value of external talent challenges any traditional CFO’s measures. However, the fact that the external talent resource is extremely difficult to quantify should not prevent organizations from exploring its vast potential.

The HR-Finance Innovation Management Team

A culture of innovation can be fostered by integrating the qualitative, creative talent of idea generators supplied by leading HR practices with the quantitative, analytical talent of the CFO’s office. To that end, the HR and Finance functions must work side-by-side as two powerful leaders on Innovation Management Team (IMT), driving forward the organization’s innovation agenda. Although the two roles are quite distinct today, future leaders who establish IMTs with strong HR and Finance integration will be better positioned to address the innovation imperative.

HR leaders should contribute their ability to attract, engage, develop and retain top talent⁹ as well as their capacity to recruit from the external talent market. At the same time, CFOs should contribute their function’s value-add analysis in an era of increasing financial controls. Additional details on these roles are provided here:

Role of the Innovation Management Team	
HR Capabilities	Finance Capabilities
<ul style="list-style-type: none">• ability to communicate to employees and engage them in creative, problem-solving dialogue• ability to identify pools of external talent	<ul style="list-style-type: none">• ability to develop and prioritize business cases for projects to link them to the organization’s strategic challenges• ability to articulate business project needs based on analysis performed on company performance scorecards and dashboards• ability to track the business benefits of projects
Role of the Innovation Management Team	
<ul style="list-style-type: none">• lead the organization in creating an innovation network inside the organization using the latest social networking web technologies to “crowdsource” the best ideas• deploy social networking technologies to the global talent marketplace, resulting in a global innovation network• translate business strategies into challenges that need to be solved• establish joint Finance-HR innovation performance measures and targets• establish forums to stimulate top talent to contribute their best ideas• update intellectual property policies to promote sharing of ideas and licensing of intellectual property developed externally• build projects around the best ideas with rigorous business cases to satisfy organization’s investment criteria, then measure and manage project portfolio• establish reward mechanisms to reward problem-solvers with financial and non-financial rewards• recognize the most valuable contributors	

The 5C Innovation Management Model

Establishing the HR-Finance Innovation Management Team is the first step; providing the IMT with a robust framework and decision-making model follows next. A new decision-making model will guide the hybrid HR and Finance organization in developing their innovation pipeline.

The 5C Innovation Management Model (IMM) provides a construct for engaging the organization and the individual idea contributor via a series of decision dimensions in the form of a flowchart. The 5C IMM provides a guide to deciding on five distinct but related elements.

Collaborate: At the heart of this model is the need to create a culture of collaboration and innovation that begins internally and extends throughout the broader global community. Looking outward from this pivotal element, the IMT must ask:

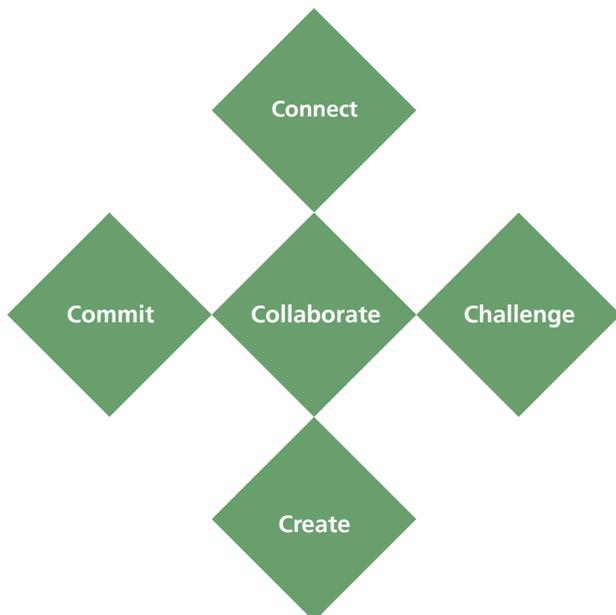
Connect: Where is the top talent located within and beyond the organization? How can we connect to it? What technologies should we deploy?

Challenge: What are the most important opportunities and problems facing our business today? How valuable would it be to solve these challenges? What is the size of the prize?

Create: What new ideas solve our most critical challenges? How should myriad ideas be grouped logically as projects?

Commit: How do we fund and reward the best ideas, projects and initiatives? How should the most valuable contributors be recognized?

Each of the five elements merits further examination.



Collaborate: Break down functional and organizational barriers

Collaboration is the unifying dimension at the center of the entire model. In recent years, Wikipedia has provided us with a brilliant example of how collaboration can take place across geographies through a global, self-organizing platform. Every day in every organization, decisions are being made about how and whether to collaborate. There is an increasing realization among leaders that functional silos slow down business and make organizations less competitive. Some leaders have begun to leverage leading-edge tools for collaboration within their organizations; their staff can now rapidly collaborate across boundaries using the latest technologies.

Externally, traditional organizational boundaries are crumbling as business leaders establish successful partnerships. Leaders such as Dell have long pioneered benchmarks for collaborating and sharing knowledge with partners across the entire value chain.

Role of the Innovation Management Team

- establish reward mechanisms for collaboration
- build collaboration into all internal processes
- encourage community participation
- moderate idea management forums online and in person

Connect: Extend and leverage a network of top talent

In the brave new world of rapid online connections through Facebook, wikis and weblogs, there is little excuse for not tapping the power of the internet – which can connect internal and external global top talent to your organization. While the concept is a new one, organizations do not need to include the cost of accessing talent from outside its four walls on its financial statements in order to benefit from them. The key challenge for today’s Innovation Management Team is to select the right audience, both internal and external.

Today’s leading HR professionals are identifying new ways to engage their top talent in a concerted effort to retain these individuals and to remain competitive. These leading HR groups have realized that diversity of backgrounds and experiences creates the potential for new conversations.

Connecting to employees

Companies like Dell use innovative internal employee-focused portals. Dell has an internal community called “Dell EmployeeStorm.” The company uses it as a tool to generate innovative ideas and capture feedback from their 80,000 employees. Employees can submit ideas, vote on the ones they like and contribute comments. In the first 60 days following the EmployeeStorm launch, Dell generated over 3,000 ideas and 48,000 votes. They have created a direct line to their employees regardless of where they sit within the organization.

Connecting to the global talent pool

When it launched Innocentive Eli Lilly was arguably the leader in reaching out to a community of researchers who would complement

The world is your think tank

Transforming global idea flow into cash flow for a competitive advantage

its internal capabilities. Today, the external community includes 135,000 scientists from 175 countries in over 40 industry disciplines, eligible for cash rewards up to \$1 million. This connection has afforded the company access to many times the numbers of research scientists without the prohibitive cost of employing them on a full-time basis.

Role of the Innovation Management Team

- implements a technology-based platform to facilitate social network connections between employees and between management and employees
- encourages participation by establishing clear reward mechanisms for participation

Challenge: Ask the right questions!

Just as a volleyball coach prepares her team for the big game with practice drills sequenced to build specific skills and capabilities, leaders have the option to choose the focus of the organization by posing the right challenge at the right time.

The best leaders ask the best questions, acknowledging humbly that they themselves may not have the best answers. In fact, solving the organization's most complex problems should not have to rest with the senior management team – if that were so, then the creativity of the employee base would barely be taxed.

As leaders consider which questions they should ask their business to solve, they naturally focus on the most strategic business problems. Challenges fall broadly into two categories: "How do we take advantage of a new opportunity?" and "How do we fix and improve what we already do?"

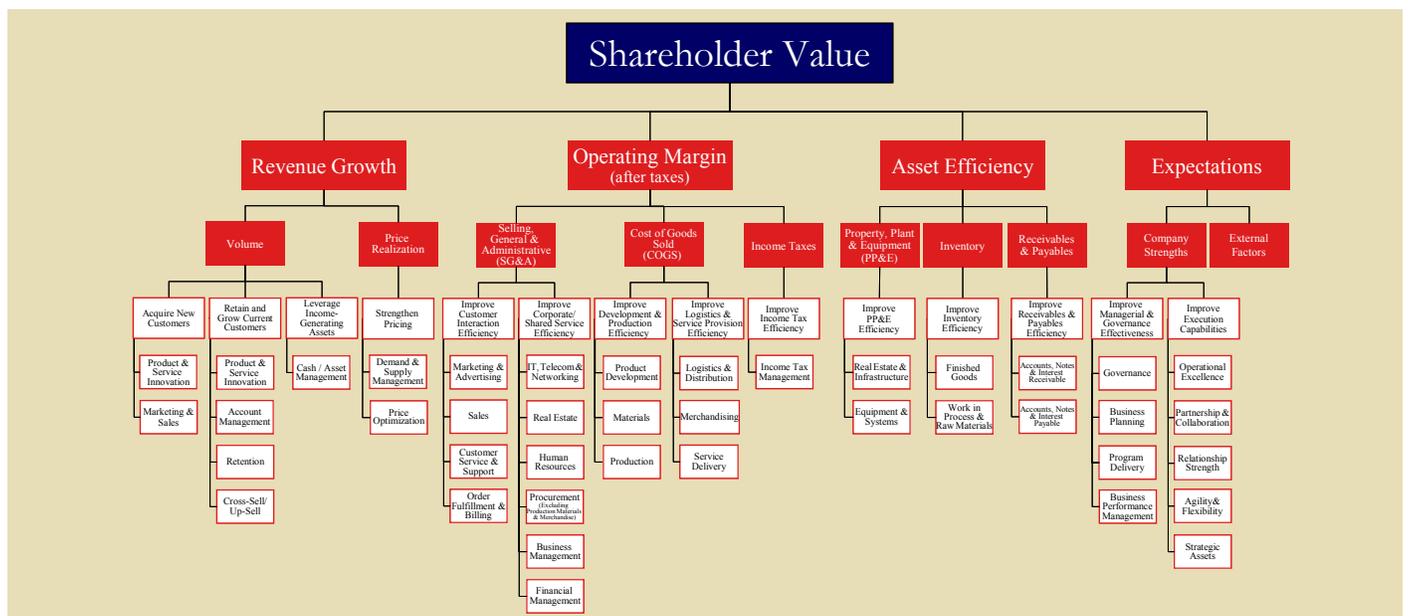
To assist leaders in setting their challenges, Deloitte has used its Enterprise Value Map, a visual tool which deconstructs the way a business creates value into the three broad value drivers: Revenue Growth, Operating Margin, and Asset Efficiency. The purpose of this map is to provide a breakdown that helps business leaders and their functional leaders confirm priorities and subsequently identify opportunities for strategic and operational business improvement. Deloitte Enterprise Value Map

For example, a challenge to seize new opportunities for revenue growth could include asking the target community to develop new products that are "green." Fixing and improving existing operations could include outsourcing as a means to reduce the cost structure of internal processes.

Food manufacturer Kraft uses the "Big Idea Group" to help respond to specific challenges. The most recent challenge¹⁰ requested ideas for healthy products for women:

Role of the Innovation Management Team

- design the right problem set, ideally tied to the strategic plan
- communicate the strategic context of challenges and present the challenges in the most appropriate sequence
- place a value on the potential solution in order to establish financial reward parameters and define the portion of the benefits that will be shared with the most innovative problem-solvers
- maintain appropriate confidentiality of proprietary trade secrets



The world is your think tank

Transforming global idea flow into cash flow for a competitive advantage

Create: Refine the best ideas

The “Create” dimension of the IMM focuses on generating and then refining the best ideas to solve the company’s most important challenges. The act of problem-solving requires an individual to create an idea that is directed at all or part of a problem. The “Create” dimension in the model begins with the community of talent. It is the individual who must be encouraged to respond, with some promise of financial or qualitative recognition. Creativity is not, however, a one-time process - ideas are initially created and then are shaped with feedback by other members of the community.

Threadless is an organization based on an entirely new business model. A community-based tee shirt company, Threadless employs an on-going open call for tee shirt design submissions. The company doesn’t invest in ideas for new tees - it sells tee shirts; remarkably, it sells only those with the best chance of success. Designers upload their tee shirt designs and the community-at-large rates and comments on the idea and the print. Threadless pays designers up to \$12,500 if their tee shirt design is chosen for mass production. Threadless has invested in the design of the platform, but has not had to invest in any design costs of its own. Furthermore, the chances of sales success for the tee shirt design selected by the community have increased because potential customers have already provided their feedback. Finally, Threadless publishes a stockchart that shows inventory levels by tee shirt design for their entire inventory and customers are encouraged to request a reprint.

Even famed innovator and leader Dell has tapped the global customer community for new product ideas in a variation of the previously mentioned EmployeeStorm initiative. Through “Dell Ideastorm” Dell asks the world to post ideas for a new Dell product or service. Ideas are exposed for other contributors to comment on, and to be promoted or demoted. To give the process a personal touch and encourage interaction, the site lists three members of the Ideastorm team. In February 2008, less than a year of operation, 8,728 ideas had been posted, generating 605,301 votes and 65,552 comments.

Role of the Innovation Management Team

- create an idea portfolio
- let others in the network see those ideas, vote on them and comment on them through a social network application
- encourage and reward participation and submission of multiple ideas
- moderate idea management forums online and in person

Commit: Prioritize and fund the best projects in a project portfolio

Once the IMT has created an idea funnel, the CFO’s analytical skills will play a strong role in promoting the investment of resources to bring the best ideas to life. Ensuring that innovative ideas have consistent business cases and that each is included in a project portfolio are important analytical processes. Tracking the success of the project against measurable criteria is also a core responsibility of the IMT.

The Innovation Management Team – particularly the HR members – should encourage individuals to commit themselves to bringing their passion to the table and to join the project team. Google’s policy in this regard states, “We believe that if an individual feels something is more important than anything we might ask them to do, they should be able to follow their passion.” Since every Google project has its own internal website, engineering teams get a lot of peer feedback as they progress on their project.

Role of the Innovation Management Team

- prioritize proposed solutions by establishing rigorous business cases for subsequent tracking of benefits realized
- recognize the most valuable contributors
- establish projects around the best solutions
- enable employees to commit themselves to project teams

Summary of the 5C Innovation Management Model (IMM)

The 5C IMM presented here is a simple model; however, it is not simplistic. Each of the companies described above has applied it in their own way, and while success appears to have come easily, it is likely that they have had to overcome challenges.

Some key suggestions to consider when applying the IMM are:

- Collaboration is at the heart of the model. A culture of innovation relies on collaborating more effectively internally and externally.
- Success relies on applying new collaborative web-based technologies that help the organization transcend traditional boundaries.
- A tightly integrated HR and Finance Innovation Management Team will have the capabilities to connect to the source of ideas and subsequently convert those ideas into projects such as business process or business model changes.
- Bringing together the organization's people and talent management skills with its financial and analytical skills is the "secret weapon" of high-performing IMTs.
- Each dimension of the model is a decision, either made by the organization or by a contributor to the organization.

Conclusion

To think ahead of the curve and address the innovation imperative, ask yourself "Does my Innovation Management Team know the creative and problem-solving value of each employee in my organization? Do we have processes, systems and reward mechanisms to track and recognize the most valuable idea generators and problem-solvers?"

Imagine your competitive advantage if your Innovation Management Team could answer these questions with a resounding "Yes"!

As the world becomes increasingly "flat" and hypercompetitive, labour advantages will tip the scales in favour of companies in developing nations for decades to come. Western European and North American organizations will be unable to compete on cost alone; there is a critical need for a top-line driven innovation agenda. A key determinant of future success will be companies' ability to attract capital as well as creative, problem-solving talent. Only the organizations with access to the best ideas and the best integrated idea management processes will achieve long-term survival.

Top talent can be reached through technology that exists today. The most successful organizations understand that technology is just a tool, and that success will arise from new policies that promote the sharing of ideas and intellectual property between problem-solvers and the organization. Today's leaders realize that an integrated HR-Finance Innovation Management Team is a competitive weapon for identifying and engaging top talent and transforming the best ideas into market success. The organization with the best integrated HR-Finance innovation team will be the likeliest to survive the coming decades of Asian labour advantage.

Endnote

- ¹ Five for the Future, Council on Competitiveness, Annual General Meeting, October 26, 2007. http://compete.org/pdf/Five_Final_8858COC.pdf
- ² China, India Seen Dominating Outsourcing, BusinessWeek, March 20, 2007. http://www.businessweek.com/globalbiz/content/mar2007/gb20070320_778394.htm
- ³ Imitate or Die: Special Report – Technology in India and China, The Economist, November 8, 2007. http://www.economist.com/specialreports/displaystory.cfm?story_id=10053234
- ⁴ Can Dinosaurs Dance?, Economist, October 11, 2007. http://economist.com/specialreports/displaystory.cfm?story_id=9928251
- ⁵ IBM Invests \$100 Million in Collaborative Innovation Ideas, November 14, 2006. <http://www-03.ibm.com/press/us/en/pressrelease/20605.wss>
- ⁶ Google's Android Developer Challenge, November, 2007. <http://code.google.com/android/adc.html>
- ⁷ InnoCentive® Expands Global Solver Network Expertise to Meet Increased Demand for Open Innovation Sourcing, September 19, 2007. <http://www.innocentive.com/crowd-sourcing-news/2007/09/20/innocentive%20-%20expands-global-solver-network-expertise-to-meet/>
- ⁸ Stuck in a Rut, CFO Magazine, November 1, 2007. http://www.cfo.com/article.cfm/10013840/c_10051145
- ⁹ Winning the Talent Wars, BusinessWeek, February 7, 2007. http://www.businessweek.com/careers/content/feb2007/ca20070207_039145.htm
- ¹⁰ http://www.bigideagroup.net/inventors/hunt_kraft_index.htm

About the authors

Alan Wunsche, MBA, CA

Deloitte Canada

416-601-6571

awunsche@deloitte.ca

Alan Wunsche, a senior manager with Deloitte Canada, works with CFOs to drive better business decisions and a culture of high performance through the finance function. His engagements focus on transforming this function into a strategic business partner through more effective planning, budgeting, and forecasting processes – and by building strong connections to the organization’s human capital and performance management agenda. Alan has over 17 years’ experience in finance, business process design and change management. He is a frequent author on management innovation.



www.deloitte.ca

Deloitte, one of Canada’s leading professional services firms, provides audit, tax, consulting, and financial advisory services through more than 7,600 people in 56 offices. Deloitte operates in Québec as Samson Bélair/Deloitte & Touche s.e.n.c.r.l. The firm is dedicated to helping its clients and its people excel. Deloitte is the Canadian member firm of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms have any liability for each other’s acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names “Deloitte,” “Deloitte & Touche,” “Deloitte Touche Tohmatsu,” or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.

© Deloitte & Touche LLP and affiliated entities. 08-1306

Member of
Deloitte Touche Tohmatsu